

VZCZCXRO5227
RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSR
DE RUEHTC #0060/01 0261626
ZNR UUUUU ZZH
R 261626Z JAN 09
FM AMEMBASSY THE HAGUE
TO RUEHC/SECSTATE WASHDC 2460
INFO RUEHAT/AMCONSUL AMSTERDAM 4113
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 THE HAGUE 000060

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SUBJECT: NETHERLANDS: ING'S FINANCIAL WOES DEEPEN

Ref: 08 THE HAGUE 910

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¶1. Summary: ING, the largest Dutch financial services and insurance provider, announced January 26 that it will cut 7,000 jobs and replace Chief Executive Officer Michel Tilmant after reporting a second consecutive quarterly loss. ING also will accept additional support from the Government of the Netherlands (GONL), this time in the form of a guarantee of 80 percent of the value of a large tranche of its problematic U.S. mortgage assets. In return, ING will pump 25 billion euro of additional credit into the Dutch economy. End summary.

ING ACCEPTS ADDITIONAL GOVERNMENT ASSISTANCE

¶2. ING and Finance Minister Wouter Bos have agreed on an "Illiquid Assets Back-up Facility" in which the GONL will guarantee 80 percent of ING's 27.7 billion euro portfolio of U.S. medium-quality mortgage-backed securities (MBS), whose illiquidity was weighing on ING's balance sheet. These "Alt-A" MBS are owned by ING Direct USA and ING Insurance Americas, ING's subsidiaries in the United States. By guaranteeing only ING's "Alt-A" MBS, the GONL has not assumed the risk of ING's worst "sub-prime" MBS. Under the terms of the Back-up Facility, the GONL will accept the full risk on 80 percent of ING's 27.7 billion euro "Alt-A" portfolio; as a consequence, the GONL will be entitled to receive 80 percent of the cash flows of the total portfolio. ING will remain the legal owner of 100 percent of the securities and will remain exposed to 20 percent of any results on the portfolio. The GONL insisted on ING retaining this 20 percent risk exposure to incentivize ING to maximize the performance of its MBS, even if it means holding onto them longer.

¶3. ING noted that it had wanted to secure GONL guarantees of its problematic MBS in October but could not due to uncertainty about possible USG assistance to ING's U.S. subsidiaries via the Troubled Asset Relief Program (TARP). Given ING's ultimate ineligibility for the TARP and the continued downward pressure on its balance sheet, the GONL agreed January 26 to provide assistance in the form of this Back-up Facility. This is in addition to the 10 billion euro in buffer capital that ING accepted in October 2008 from the GONL's emergency fund to provide liquidity to struggling financial institutions (reftel).

¶4. In return for GONL assistance, ING has agreed to earmark part of the capital released by the Back-up Facility and the buffer capital supplied by the GONL in October to inject more credit into the Dutch market. Specifically, ING will supply 25 billion euro in credit to consumers and commercial and industrial companies in the Netherlands. The ING Executive Board also will forego any bonuses in 2009 and will soon introduce a new remuneration system. Ministry

of Finance contacts note that these provisions were prerequisites for any additional GONL assistance to ING. The GONL remains concerned about the tight domestic credit market, and the Dutch public and parliamentarians have repeatedly called for caps on extravagant corporate salaries since the onset of the financial crisis.

ING ANNOUNCES JOB CUTS, CEO'S RESIGNATION

¶5. ING announced January 26 that, in addition to accepting GONL Q5. ING announced January 26 that, in addition to accepting GONL guarantees, it will cut operating expenses by one billion euro in ¶2009. ING expects this move to lead to annual savings of approximately 1.1 billion euro from 2010 onward. ING will achieve 35 percent of its one billion euro cutback by slashing 7,000 full-time jobs (or 5.4 percent of its total 130,000 workforce), and the remaining 65 percent by reducing costs of marketing, consultancy, third-party staff, and IT vendors, as well as other non-core divestitures. Of the total one billion euro reduction, ING expects 650 million euro to come from its banking arm and 350 million euro from its insurance activities.

¶6. Meanwhile, Michel Tilmant, ING's 56-year-old CEO, announced his resignation January 26 "in light of the extraordinary developments over the past few months and ... his personal condition." ING Supervisory Board Chairman Jan Hommen will succeed Tilmant. Contacts at ING noted that, although Tilmant did not have a pre-existing medical condition, the high stress environment of the last few months had taken its toll on Tilmant's health. They added that the decision to resign was a "mutual" one between Tilmant and the Supervisory Board, which was looking for new, more energetic leadership in the face of ING's continuing struggles. Incoming CEO Jan Hommen likely is an interim choice to guide ING back to health; Hommen is 65 and was previously CFO at Philips and Alcoa (where he

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had a long U.S.-based career).

ING STOCK RISES, BUT OVERALL A GLOOMY PERFORMANCE

¶7. The market responded positively on January 26 to news of ING's cutbacks, CEO replacement, and GONL assistance; ING's share price on the Euronext stock exchange rose 30 percent to 6.84 euro, compared with a 52-week low of 4.76 euro and high of 26.02 euro. Despite today's upward tick in share price, ING's performance in recent months, like many international financial institutions, has been dismal. ING has lost 73 percent of its market value in the past 12 months. It posted its first ever loss in the third quarter of 2008 as it wrote down the value of stocks, bonds, mortgages, and assets related to the bankruptcy of Lehman Brothers. The GONL's emergency capital injection of 10 billion euro in October did little to boost performance, with ING anticipating a fourth-quarter pre-tax loss, excluding asset sales and special items, of 3.3 billion euro because of write-downs on mortgage securities, debt, and equities. ING expects a net loss over 2008 of 0.4 billion euro.

COMMENT

¶8. Comment: The necessity of a second round of GONL assistance to ING in three months highlights its continuing inability to rebound from substantial exposure to problematic U.S. mortgage-backed securities. It also underscores ING's strategic error - one made by many international financial institutions - of attracting billions of dollars in the U.S. savings market but then investing that money in poorly understood, risky U.S. financial derivatives that have borne the brunt of the downturn. By insisting that ING provide 25 billion in credit to Dutch consumers and businesses as part of the January 26 deal, the GONL is forcing ING to start lending the state aid that it has received since October and help loosen Dutch credit markets. The GONL will not let ING, as the Netherlands' largest

financial and insurance institution, fail - but the GONL is taking prudent steps to ensure that ING gives something back to the slowing Dutch economy in return for continued state aid. End comment.

GALLAGHER